

## Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 IO-13 ISO-00 L-03 FRB-03 OMB-01  
ITC-01 SP-02 ICA-11 AGRE-00 AID-05 CIAE-00  
COME-00 INR-10 LAB-04 NSAE-00 OIC-02 SIL-01  
STR-07 TRSE-00 CEA-01 SS-15 NSC-05 JUSE-00 /105 W  
-----013934 301639Z /47

R 301449Z MAY 78  
FM AMEMBASSY BRUSSELS  
TO SECSTATE WASHDC 6883  
INFO ALL EC CAPITALS  
USMISSION USUN NEW YORK  
USMISSION GENEVA

C O N F I D E N T I A L SECTION 01 OF 02 BRUSSELS 10455

USEEC

PARIS ALSO FOR OECD

E.O.11652: GDS  
TAGS: EGEN, ETRD, UNCTAD, UN, EEC  
SUBJECT: US/EC CONSULTATIONS: COMMON FUND

1. SUMMARY. WHILE IT IS MOST DIFFICULT FOR THE US TO ACCEPT THE CONCEPT OF A SECOND WINDOW FOR THE COMMON FUND (CF), THE COMMISSION SAID THAT A MAJORITY OF MEMBER STATES HAS IN PRINCIPLE ACCEPTED A SECOND WINDOW. THE US SIDE NOTED THAT THE US COULD NOT AGREE TO DIRECT CONTRIBUTIONS TO THE FIRST WINDOW OF THE CF, EXCEPT POSSIBLY FOR ADMINISTRATIVE COSTS. BOTH SIDE AGREED ON THE NECESSITY OF PREVENTING THE G-77 FROM OBTAINING ADMINISTRATIVE AND VOTING CONTROL OF THE CF. IN VIEW OF THE NUMBER OF MEETINGS WHICH ARE TAKING PLACE LEADING TO UNCTAD V IN MANILA IN 1979, PROCEDURAL TACTICS MUST BE CAREFULLY CONSIDERED. THE US SIDE URGED THE EC TO AVOID PAYING A PRICE TO RESUME NEGOTIATIONS OF THE CF AND  
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PROMISED TO GET BACK TO THE EC SOON AS TO THE US ASSESSMENT AS TO HOW BEST TO PROCEED. END SUMMARY.

2. DIRECTOR GENERAL FOR DEVELOPMENT KLAUS MEYER OPENED THE DISCUSSION BY NOTING THAT THE MAJORITY OF MEMBER STATES HAS ACCEPTED THE PRINCIPLE OF A SECOND WINDOW FOR OTHER MEASURES IN THE CF, ALTHOUGH SOME STATES STILL

HAVE DOUBTS. WE NEED TO THINK ABOUT THE TIMING OF FUTURE CF DISCUSSIONS, PARTICULARLY IN LIGHT OF THE UNCTAD MEETING IN MANILA IN 1979. BEFORE DECIDING ON TACTICS, WE SHOULD PROBABLY AWAIT THE IDEAS OF UNCTAD SECRETARY GENERAL COREA AS WELL AS THE JULY AD HOC COMMITTEE MEETING ON THE CF AND THE NEXT MEETING OF THE UN COMMITTEE OF THE WHOLE. FURTHERMORE, WITHOUT SOLID PROGRESS ON INDIVIDUAL COMMODITY AGREEMENTS, THE CF CANNOT PLAY A USEFUL ROLE.

3. DEPUTY ASSISTANT SECRETARY HORMATS SAID THAT WE AGREE WITH THE EC ON A NUMBER OF ISSUES, BUT NOT ON THE SECOND WINDOW SINCE WE BELIEVE THAT THE CASE HAS STILL NOT BEEN MADE FOR IT. THE SECOND WINDOW IS, AT BEST, A POLITICAL EXERCISE. WE UNDERSTAND WHY SOME COUNTRIES ARE INTERESTED IN IT, BUT ALL OF ITS INTENDED FUNCTIONS COULD BE PERFORMED BY THE WORLD BANK, OTHER INTERNATIONAL FINANCIAL INSTITUTIONS, OR INDIVIDUAL COMMODITY AGREEMENTS. WE ADMIT THERE MAY BE A GAP, BUT WE COULD PROVIDE FINANCING IN SPECIFIC AREAS, SUCH AS COTTON OR COCOA THROUGH INTERNATIONAL COMMODITY AGREEMENTS (ICA'S). WE WOULD NOT HAVE A CREDIBLE ARGUMENT IN PRESENTING A SECOND WINDOW TO THE CONGRESS AND WE WOULD, IN DOING SO, UNDERMINE OUR CREDIBILITY IN REQUESTING SUPPORT FOR BILATERAL AND MULTILATERAL AID PROGRAMS THAT DO DESERVE IT. UNLESS THE LDC'S CAN STRENGTHEN AND MAKE MORE CLEAR THE CASE FOR A SECOND WINDOW, WE CANNOT GO ALONG. WE ARE IN A DIFFICULT  
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POSITION IN HOLDING OUT ON THE SECOND WINDOW. ON THE OTHER HAND, IF WE ACQUIESCE, NO MONEY IS LIKELY FROM THE CONGRESS. IT IS NOT AS EASY FOR THE US AS FOR SOME OTHER DEVELOPED COUNTRIES TO PUT UP TOKEN AMOUNTS FOR POLITICAL REASONS IF THEY CANNOT BE JUSTIFIED ON SOUND ECONOMIC GROUNDS.

4. CASPARI NOTED THAT IT IS HARD TO ENVISAGE A POSITIVE OUTCOME TO THE CF NEGOTIATIONS WITHOUT SOMETHING THAT CAN BE CALLED A SECOND WINDOW. THE PROBLEM SEEMS TO BE TO FIND A WAY FOR THE US TO BE ABLE TO ACCEPT ONE. HORMATS NOTED THAT THE LDC'S HAVE ALWAYS ENVISAGED THE SECOND WINDOW AS A FINANCIAL ORGAN, WHICH IS WHY IT IS SO DIFFICULT FOR US TO ACCEPT IT. WE BELIEVE, HOWEVER, THAT THE CF CAN PLAY AN IMPORTANT COORDINATING ROLE. CASPARI ASKED WHAT THE US WOULD DO IF THE G-77 NEGOTIATORS INSIST ON DIRECT FINANCIAL CONTRIBUTIONS TO THE FIRST WINDOW AT UNCTAD V. HORMATS SAID THAT THE US DID NOT BELIEVE THE CASE HAD BEEN MADE FOR SUCH CONTRIBUTIONS. IF THESE SUPPORT ONLY THE ADMINISTRATIVE COSTS OF THE CF, WE COULD CONSIDER THEM. SO FAR THERE IS NO ECONOMIC JUSTIFICATION FOR SUCH CONTRIBUTIONS, AND WE SUSPECT THAT OTHERS MAY

SHARE OUR VIEW. WE BELIEVE THAT A HIGHLY EFFECTIVE CF CAN  
BE BASED ON GROUP-B SCHEME WITHOUT DIRECT CONTRIBUTIONS.  
OUR BANKERS ALSO DO NOT BELIEVE THAT PAID-IN CAPITAL  
IS NECESSARY.

5. MR. HORMATS ALSO SAID THAT THE ISSUES OF VOTING RIGHTS  
AND CONTROL WILL BE DIFFICULT INDEED. OUR SUSPICION IS  
THAT THE OBJECTIVE OF THE G-77 NEGOTIATORS IS TO OBTAIN  
51 PERCENT OF THE VOTES FOR THE LDC'S. THIS WOULD BE A  
DIFFICULT SITUATION IN TERMS OF OUR PROVIDING MONEY. IT  
WOULD COMPLETELY UNDERCUT THE PHILOSOPHY ON WHICH THE  
WORLD BANK AND OTHER IFI'S ARE BASED--THAT OF VOTES ROUGHLY  
PROPORTIONAL TO SHARES OF CONTRIBUTION. THE TACTICAL WORRY  
IS WHETHER WE SHOULD GIVE AWAY ANYTHING TO GET BACK TO THE  
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TABLE, ONLY TO BE CONFRONTED WITH REQUESTS FOR MORE AID  
AT THE END OF THE NEGOTIATIONS AND WITH PROBLEMS OF CONTROL  
OF THE CF. WE TRIED IN GENEVA TO GET THE G-77 TO FOCUS  
ON THE CONTROL ISSUES; IT IS NO ACCIDENT THEY HAVE NOT  
DONE SO SO FAR.

6. MEYER SAID THE COMMISSION BELIEVES THERE SHOULD BE DECISION-MAKING BY CONSENSUS, SINCE THE EC ALSO COULD NOT ACCEPT LDC CONTROL. NO PRECISE VOTING SYSTEM HAS BEEN DISCUSSED WITH THE MEMBER STATES, BUT THE COMMISSION WANTS A VOTING/MANAGEMENT SYSTEM UNDER WHICH NO SINGLE GROUP CONTROLS THE CF. HORMATS SUGGESTED WE CONSIDER SOMETHING CLOSER TO VOTES RELATED TO CONTRIBUTIONS THROUGH ICA'S.

7. HORMATS COMMENTED THAT IN TERMS OF TACTICS, SEVERAL EVENTS ARE COMING UP: THE JUNE 26 INFORMAL GROUP, THE AD HOC GROUP (WHERE COREA WILL MAKE HIS REPORT), THE UNGA, CF NEGOTIATIONS PROPER (WE UNDERSTAND FRANCE OR THE UK WANT NEGOTIATIONS IN SEPTEMBER) AND UNCTAD V. THE REAL QUESTION IS HOW TO PACE OUR TACTICS. THE USG HAS NOT THOUGHT TOO MUCH ABOUT IT. WE WOULD LIKE TO STAY IN CLOSE CONFIDENTIAL

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TOUCH. COREA WANTS THE CF OUT OF THE WAY BEFORE MANILA. THE QUESTION IS DO WE NEGOTIATE WELL BEFORE MANILA AND RISK NEW ISSUES BEING ADDED AT MANILA, OR DO WE WAIT UNTIL MANILA AND RISK THE CHARGED ATMOSPHERE AT UNCTAD V, EVEN THOUGH WE PREVENT THE ADDITION OF NEW ISSUES. MEYER FELT THE DEVELOPED STATES SHOULD SAVE SOMETHING FOR MANILA.

8. CASPARI SAID HE BELIEVE WE NEED TO MAKE SOME PROGRESS ON CF. THIS CAN BE ACCOMPLISHED BY SHOWING A WILLINGNESS TO EXAMINE THE USEFULNESS OF A SECOND WINDOW AND THE MEANS OF FINANCING IT. SUCH A STANCE WOULD BENEFIT THE POSITION OF THE G-77 MODERATES. HORMATS SAID WE WOULD CLEARLY LIKE THE LDC'S TO COME UP WITH A ROLE IN "OTHER MEASURES" AREA WHICH WE COULD SUPPORT, BUT THAT THE G-77 REPS AT GENEVA HAVE TOLD US THAT DESCRIPTION OF THE MEASURES TO BE FINANCED BY A SECOND WINDOW SHOULD BE LEFT TO THE INTERNATIONAL COMMODITY AGREEMENTS (ICA'S). MAKING THEM DEFINE THESE MEASURES MIGHT HELP US AND MAY PROVIDE SOME HOPE FOR REACHING AGREEMENT ON A SECOND WINDOW. IN ABSENCE OF A CONVINCING ARGUMENT THAT THE SECOND WINDOW IS NOT DUPLICATIVE, WE COULD NOT SUPPORT IT.

9. CASPARI SAID SOME ASIAN LDC'S HAVE NO REAL INTEREST IN THE CF. THEY ACTUALLY WANT A STABEX BUT FIGHT FOR THE CF IN THE INTEREST OF SOLIDARITY. ONLY THE AFRICANS ARE INTERESTED IN THE SECOND WINDOW. HORMATS THOUGHT THAT THE AFRICANS AND THE SOUTH ASIANS ARE PARTICULARLY INTERESTED IN THE SECOND WINDOW, WHILE COREA, AND MAYBE SOME LATIN AMERICAN STATES (SUCH AS VENEZUELA), WANT PRIMARILY THE FIRST WINDOW. SOME COUNTRIES WHO THINK THEIR PRODUCTS WOULD BENEFIT FROM ADDITIONAL BUFFER STOCK FINANCING ALSO ARE PROMOTING THE FIRST WINDOW.

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10. HORMATS FELT THE G-77 MEMBERS MAY SENSE THAT THEY CAN OBTAIN SUPPORT OF ENOUGH DEVELOPED COUNTRIES SO THAT THEY MAY FEEL THERE IS NO NEED FOR COMPROMISE TO RESOLVE OUTSTANDING PROBLEMS OR TO REACH CONSENSUS. IF WE ACKNOWLEDGE THAT THE UNCTAD SECRETARIAT HAS COME CLOSE TO HALF-WAY IN ITS LATEST PAPER--WHICH IT HAS NOT--THEN THE LDC'S MAY NOT BE WILLING TO MAKE ANY FURTHER COM-PROMISES.

11. ALTHOUGH CASPARI HAD THE IMPRESSION THAT NEW COREA DRAFT WILL BE MORE REASONABLE, HORMATS SAID COREA HAD TOLD HIM IT WOULD BE LARGELY UNCHANGED

12. MEYER SAID WE NEED CLEAR TACTICAL THINKING ON EVERY STEP WE TAKE. EITHER WE GET NOTHING IN MANILA OR AN UNREASONABLY EXPENSIVE AND CUMBERSOME CF. WE HAVE ONLY BAD CHOICES. HORMATS COMMENTED THAT HE WAS NOT THAT FATALISTIC. WE WANT TO BE CONSTRUCTIVE BUT THERE ARE LIMITS. THE DEVELOPED COUNTRIES CANNOT BE FORCED INTO A BAD CF: WE HAVE THE MONEY NEEDED TO MAKE THE CF A SUCCESS. REGARDING THE COMMENT BY COMMISSION REPRESENTATIVE THAT WE WILL BE EMBARRASSED INTO AGREEING, HE QUOTED ELEANOR ROOSEVELT TO THE EFFECT: "YOU CAN'T BE EMBARRASSED WITHOUT YOUR CONSENT." HE PROMISED TO THINK ABOUT THE PROBLEM FURTHER AND GET BACK TO THE COMMISSION. OUR PLEA IS THAT NO CONCESSIONS BE MADE NOW TO THE G-77 JUST TO GET BACK TO THE TABLE. IF WE DO THAT, HORMATS NOTED, WE HAVE NOTHING IN OUR POCKETS WHEN THE REAL NEGOTIATIONS BEGIN. HINTON

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## Message Attributes

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